

INTERNATIONAL MONETARY FUND

Review of the Poverty Reduction and Growth Facility: Issues and Options

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I. BACKGROUND TO THE REVIEW

1. The September 1999 Annual Meetings resulted in a clear mandate for the IMF to integrate the objectives of poverty reduction and growth more fully into its operations for the poorest countries and to base these operations on national poverty reduction strategies prepared by the country with broad participation of key stakeholders. Reflecting this new approach, the IMF established the Poverty Reduction and Growth Facility (PRGF) to replace its previous concessional assistance instrument, the Enhanced Structural Adjustment Facility (ESAF) (see Box 1).

2. At that time, the Executive Board also called for a review after two years of the initial experience under the PRGF. This review was to include feedback and input from officials and others engaged in this work in the field as well as analyses by Fund staff, and to take place in conjunction with a parallel joint Bank-Fund review of the initial experience with the overall PRSP approach.¹ This paper and its associated paper—*Review of the Key Features of the PRGF—Staff Analyses*, (henceforth, *Staff Analyses*)—have been prepared in response to that request. Both papers focus on PRGF-supported programs and their links to, or relationship with, the broader poverty reduction strategies set out in the PRSPs and Interim-PRSPs (I-PRSPs). Issues relating to I-PRSPs/PRSPs are addressed in the parallel staff papers for the comprehensive review of the PRSP approach, prepared jointly with the World Bank.

3. This review draws upon a broad range of internal and external views gathered over the period July 2001 to February 2002. These include discussions at various regional fora on the PRSP approach during 2001, in which a majority of PRGF countries participated, meetings held with donor government officials and representatives of civil society organizations including with representatives of the donor governments at the OECD's Development Assistance Committee (DAC), and the deliberations at the three main sessions on the PRGF at the recently concluded Bank-Fund International Conference on Poverty Reduction Strategies (January 2002). In addition, the views of key officials in member countries with PRGF arrangements covered by the review in response to a questionnaire structured around the key features of the PRGF have also been taken into account (see Appendix I).

¹ *Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, 12/13/1999).

Box 1. Evolution from ESAF to the PRGF

The creation of the Poverty Reduction and Growth Facility (PRGF) in late 1999 represented the culmination of more than two years of internal and external reviews and Fund policy discussions on the assessment and transformation of the Enhanced Structural Adjustment Facility (ESAF). This process included:

- The 1997 staff review of the ESAF ten years after the facility's inauguration in 1987.¹
- An external review of the ESAF in 1998.²
- A summary paper on the internal and external reviews—*Distilling the Lessons of the ESAF Reviews*—discussed by the Board in July 1998 and leading to a first round of changes to the ESAF architecture and staff guidance.³
- Discussions in the Executive Board and Interim Committee in September 1999 leading to the decision to transform the ESAF into the PRGF and link the PRGF closely to Poverty Reduction Strategy Papers (PRSPs).
- An Operational Issues paper for the PRGF discussed by the Executive Board in December 1999.⁴

A paper providing more precise staff guidance as to the expectations of the PRGF and PRSPs—*Key Features of Poverty Reduction and Growth Facility Supported Programs*⁵ was distilled from the Operational Issues paper and its summing up, issued to the Executive Board, and subsequently published.

¹*Review of Experience Under ESAF-Supported Arrangements* (EBS/97/112, 6/23/1997), *Review of Experience Under ESAF-Supported Arrangements—Staff Studies Volumes I* (EBS/97/112, Sup. 1; 7/02/1997) and *II* (EBS/97/112, Sup. 2; 7/07/1997), and *Review of Revenue and Expenditure Policy and Performance Under SA/ESAF-Supported Programs* (EBS/97/123, 7/02/1997).

²*The External Evaluation of the Review of the Enhanced Structural Adjustment Facility* (EBAP/98/8, 1/22/1998).

³*Distilling the Lessons of the ESAF Reviews* (EBS/98/105, 06/16/1998); *Selected Operational Issues in ESAF Arrangements* (EBS/98/115, 07/07/1998); and *Summing Up by the Chairman—Distilling the Lessons of the ESAF Reviews* (BUFF/98/62, 07/14/1998).

⁴*Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, 12/13/1999)

⁵*Key Features of Poverty Reduction and Growth Facility (PRGF) Supported Programs* (SM/00/193, 08/17/2000) and *Concluding Remarks by the Chairman—Poverty Reduction Strategy Papers—Operational Issues; Poverty Reduction and Growth Facility—Operational Issues* (BUFF/99/154, 12/27/1999).

II. OVERVIEW OF THE PAPER

4. At the time the PRGF was instituted, it was envisaged that there would be some far-reaching changes in the way the Fund worked to support low-income member countries. First, there would be *a change in the content of Fund-supported programs in these countries*—the programs would be more pro-poor and pro-growth. Second, there would be an increased *emphasis on country ownership* of PRGF-supported programs. And third, there would be *a better definition of the Fund's role* and relationship with other agencies supporting the development efforts of low-income countries. Although much of the structure for the anticipated changes was embedded in the PRSP process, specific expectations for PRGF-supported programs were laid out in the *Key Features of Poverty Reduction and Growth Facility (PRGF) Supported Programs* (henceforth *Key Features*) document which was issued in August 2000 after extensive internal and external consultation (see Box 2).

Box 2. Key Features of PRGF-Supported Programs

As use of the PRGF has evolved, a number of distinctive features of the new facility have emerged. Foremost among these is broad public participation and increased national ownership. Basing a PRGF-supported program on the country's PRSP should ensure that civil society has been involved in the formulation of the program, that the country authorities are the clear leaders of the process, and that the program is properly embedded in the overall strategy for growth and poverty reduction. Thus, Fund staff are required to explain to the Executive Board how these programs derive from the poverty reduction strategy and how they are complementary to the World Bank's activities and conditionality.

An important outcome of the new approach is that more attention is being given to the economic aspects of governance than in the past. At the same time, more attention should be given to the social impact of major reforms under the program. Where there are expected to be major reforms, analysis of the impact on the poor has to be conducted (normally by the World Bank where governments lack the capacity to do this work themselves), and, where necessary, countervailing measures incorporated in the PRGF-supported program. With improved country ownership, PRGF conditionality can and should be more selective, focusing on measures central to the success of the country's strategy, particularly in the macroeconomic and financial area.

Key features:

1. Broad participation and greater ownership
2. Embedding the PRGF in the overall strategy for growth and poverty reduction
3. Budgets that are more pro-poor and pro-growth
4. Ensuring appropriate flexibility in fiscal targets
5. More selective structural conditionality
6. Emphasis on measures to improve public resource management/accountability
7. Social impact analysis of major macroeconomic adjustments and structural reforms

Sources: *IMF Lending to Poor Countries—How Does the PRGF differ from the ESAF?* (IMF Issues Brief 01/06, 04/30/2000) and the *Key Features of Poverty Reduction and Growth Facility Supported Programs (SM/00/193, 08/17/2000)*. Because of the breadth of the key features (seven features with a total of 22 sub-elements falling within the scope of this review), full details of the assessment are presented in the companion *Staff Analyses* paper.

5. This paper, and the accompanying Staff Analyses paper which uses the *Key Features* as its organizing principle, argues that in all three fundamental areas for change—program content, country ownership, and the Fund's role—there has been substantial progress over the last two years, but there is still more that can and should be done.

6. There are areas of marked success. Policy goals, including macroeconomic frameworks in PRGFs are generally consistent with those of the supporting PRSPs. There is an increased allocation of budgetary resources toward poverty-reducing spending, and fiscal frameworks are accommodating higher spending to support country-defined poverty reduction objectives. Structural conditionality has been streamlined considerably to focus on areas of Fund expertise or areas critical to PRGF-supported programs, while providing better coordination and definition of roles vis-à-vis the World Bank.

7. However, there is also scope for further improvement. For example, an increased poverty focus will require more systematic incorporation of poverty and social impact assessments in PRGF-supported programs and there is a need for further progress on a variety of public expenditure issues, including improving the quality and efficiency of government spending. In addition, although many country authorities have cited greater openness and flexibility on the part of the Fund as a key factor for their enhanced sense of program ownership, there is still a perceived need to encourage deeper and broader discussion and analysis of the macroeconomic framework and the policies in PRGF-supported programs, including on various alternative policy paths and the trade-offs involved. Of particular importance is increasing the focus on the sources of growth in PRGF-supported programs. Finally, the documentation for these programs should be reviewed with a view to laying out more clearly the program's role in the context of the overall poverty reduction strategy as well as the policy options that were considered and the commitments made by authorities in the context of the program.

8. The early experience with PRGF-supported programs has also highlighted the urgency of strengthening analytical and technical capacity at the national level. Progress in this regard will have a key bearing on areas like the development of alternative policy scenarios or the preparation of poverty and social impact analysis. This highlights the need for a stronger focus by the international community on institutional capacity building in PRGF countries.

9. One last important introductory note is needed. This review necessarily focuses on the extent to which the *design* of PRGF-supported programs has been consistent with the objectives set out by the Board. It is too early to consider questions about program implementation or poverty and growth outcomes, since the process of transformation from the ESAF to the PRGF is still at an early stage; for example, a large majority of PRGF-supported programs are either new PRGF arrangements that have not yet reached their first review or ESAF arrangements that were transformed into PRGF-supported arrangements in midstream.² Furthermore, data on outcomes are not yet available for a meaningful analysis. But more importantly, the transformation that the Fund is trying to effect—in content, in country ownership, and in the Fund's role—requires some basic behavioral changes in the way various large international institutions, country governments, and civil society interact in formulating politically, economically, and sociologically complex programs. The progress made over the last two years must be seen in such a setting, where change is bound to be uneven and often dependent on special country circumstances, individual relationships, and sometimes slowed by institutional inertia. Also, it must be made clear that the Fund is one of many institutions involved in poverty reduction and its role in poverty reduction focuses on its areas of expertise; success in poverty reduction and growth will be highly dependent,

² Section III and Attachment II of the *Staff Analyses* have a more extensive discussion of the sample selection criteria and a full listing of countries and documents reviewed respectively.

inter alia, on poor countries implementing the right policies, on other multilateral institutions and bilateral donors providing essential technical and financial support, and on developed countries opening their markets to developed country exports.

10. The remainder of the paper is organized as follows: Section III and the companion paper summarize the extent to which the design of early PRGF-supported programs and the content of staff documents reflect the expectations set out above. Section IV looks at some issues on the architecture of the PRGF that have been raised in the context of either outside comments or subsequent Executive Board discussions. Issues for discussion by the Executive Board are raised in Sections V.

III. IMPLEMENTATION OF THE POVERTY REDUCTION AND GROWTH FACILITY: KEY FEATURES IN PROGRAM DESIGN

A. Are PRGF-Supported Programs More Pro-Poor and More Pro-Growth?

11. There are several inter-related aspects to the question of whether PRGF-supported programs are more pro-poor and pro-growth. Fiscal flexibility considers how the programs allow for higher spending and unforeseen developments in budget financing. Moving next to the uses of this higher spending, the extent to which increased budgetary resources are being allocated to poverty-reducing spending is considered. Closely linked to the question of increased budgetary allocations are issues related to ensuring that public expenditures are channeled to their intended uses. Another related but broader question—whether poverty and social impact analysis is incorporated into budget and program design and also into PRGF documents—is then discussed. Finally and still more broadly, the section concludes with a discussion of the projected impact of PRGF-supported programs on economic growth.

Fiscal flexibility

12. PRGF-supported programs allow for higher levels of primary (non-interest) public expenditure than the preceding ESAF-supported programs. These expenditures have been financed largely by higher grants and revenues, which combined with lower interest burdens has enabled the recourse to domestic borrowing to be maintained at similar levels under both programs. Fiscal frameworks in PRGF-supported programs vary according to the circumstances of the country and the compatibility of higher spending and deficits with other macroeconomic objectives. Post-stabilization countries incorporate larger increases in public expenditure, and the overall fiscal deficit, than other countries with PRGF-supported programs. Revenue increases are targeted to rise more slowly for PRGF-supported programs in general, but this is most evident for Heavily Indebted Poor Countries (HIPCs) and post-stabilization countries (in the latter case, this might reflect their healthier revenue generation prior to the start of the PRGF). PRGF-supported programs also show greater flexibility than programs supported under the ESAF in accommodating higher spending when higher than expected foreign financing (including grants) is available. When a shortfall in external assistance materializes, two-thirds of PRGF-supported programs allow additional domestic financing to compensate for it. However, less progress has been made in the identification of

contingent expenditures in programs, perhaps due in part to the limited extent of prioritization or specification of such expenditures in I-PRSPs and PRSPs (see *Staff Analyses*, Section VI).

13. Other assessments generally agree with those of the staff on fiscal flexibility. In the survey of authorities, about two thirds agree that there is greater fiscal flexibility in accommodating both social spending and increased foreign financing and less than 25 percent disagree on either fiscal flexibility question. Views of NGOs and donors were likewise largely in agreement on the assessment of progress in fiscal flexibility.

Pro-poor, pro-growth budgets

14. The composition of budgeted and actual public spending is becoming more pro-poor in line with the objectives expressed in the PRSPs. Countries with PRGF-supported programs are allocating more to education and health care, as a percent of GDP, as a share of total government spending, and in per capita terms. In addition to increases in social spending, substantial increases in spending identified as poverty-reducing in PRSPs are also envisaged in PRGF-supported programs, although weaknesses in budget classification and reporting complicate this assessment. Higher public outlays for education and health, and the shift in composition of public outlays toward capital expenditures, should also contribute to higher growth (and hence poverty reduction) over time. PRGF-supported programs target increases in tax revenues and have focused largely on improving the efficiency of the tax system and tax administration, as the scope for fighting poverty through redistributive taxation is limited (see *Staff Analyses*, Section V).

15. Outside assessments generally agreed with those of the staff on the shift toward more pro-poor budgeting. For example, in the survey of authorities, the extent of agreement is highest for pro-poor budgeting where 94 percent agreed that budgets had become more pro-poor (the other 6 percent is neutral rather than disagreeing). Views of NGOs and donors were likewise in general agreement on the assessment of progress in pro-poor budgeting.

16. This higher spending on poverty-reducing activities must be accompanied by improvements in efficiency and targeting to significantly improve social outcomes. Therefore, over three quarters of all PRGF-supported programs incorporate measures to improve efficiency or targeting—a larger share than under the ESAF. Given the importance of this issue, there is further scope to improve the quality and specificity of expenditure advice in PRGF-supported programs. This will become easier as more countries move to full PRSPs, where there will be further opportunity to articulate measures in more detail, and to more fully integrate policy advice from development partners, including that contained in the World Bank's Public Expenditure Reviews.

Improved public expenditure management

17. Almost all PRGF-supported programs place substantial emphasis on strengthening governance through improved public expenditure management (PEM). On average, each

PRGF-supported program request or review includes between four and five new measures to strengthen PEM—about one-third more than under the ESAF. Over half of the PEM measures in country programs are incorporated into conditionality (i.e., as prior actions, performance criteria, or structural benchmarks for reviews). Most focus on strengthening budget execution (i.e., keeping expenditures within the limits set in the budget); others seek to strengthen auditing or implement anti-corruption strategies.

18. Also related to PEM, a number of countries, particularly HIPCs, are aiming to improve budget classification, so as to better track and report on poverty-reducing spending identified in PRSPs. In this context, many HIPCs have implemented “bridging mechanisms” to facilitate the tracking and reporting of poverty-reducing spending. More general improvements in PEM systems are also expected to strengthen the ability to track poverty-reducing outlays, including the implementation of medium-term expenditure frameworks (see *Staff Analyses*, Section VIII).

19. Despite the strides made in the PEM area, a substantial agenda of reform remains, including with respect to the comprehensiveness of budgetary data and its dissemination to the public. Fiscal data often do not capture all extra budgetary activities, and only about half fully capture donor funds in the budget in a timely manner. In addition, spending outcomes often differ substantially from the budget, limiting the usefulness of the budget as an indicator of the government’s fiscal policy. Furthermore, very few budgets provide detailed information on the government’s medium-term fiscal plans. With respect to dissemination, most countries do not publish outturn data in a timely fashion. These results underscore the need for continued close attention to PEM as an integral component of PRGF-supported programs—not only to enhance fiscal discipline, but also to improve the quality of the PRSP process.³

20. External views are broadly in agreement with the staff assessments on PEM. In their formal and informal submissions for the review, donors generally agreed on the importance of PEM work and progress to date. The survey of the authorities in PRGF countries likewise reveals strong agreement that there is greater emphasis on improved management and accountability in the use of public resources under the PRGF. However, many donors and PRGF country authorities also expressed the view that there was a need for greater harmonization of PEM initiatives to reduce duplication and limit the burden on country authorities.⁴

³ In this context, preparation of the fiscal module of Reports on the Observance of Standards and Codes (ROSCs) by the Fund and Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reviews (CPARs), Institutional and Governance Reviews (IGRs), and Public Expenditure Reviews (PERs) by the Bank will continue to promote fiscal transparency and accountability in PRGF countries.

⁴ In this context, the World Bank and the European Commission have recently launched the Public Expenditure and Financial Accountability Program (PEFA) to spur greater coordination. In addition, the action plans for strengthening the tracking of poverty-reducing spending in 24 HIPCs (recently prepared in collaboration with Bank and Fund staff) are being integrated with action plans developed through other Bank instruments, and will

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Poverty and social impact analysis

21. To help orient PRGF-supported programs toward combating poverty, poverty and social impact analysis (PSIA) is influencing both the design of economic policies and the formulation of countervailing (compensatory) measures. About half of all PRGF-supported programs refer to some form of poverty and social impact analysis (PSIA), and about one-third refer to formal PSIA based on more rigorous analysis. In some cases, this has led to a modification of policies, due to concern over the possibly adverse effects on the poor. About two-thirds of PRGF-supported programs include countervailing measures, which aim to offset the potentially adverse short-run effects of exogenous shocks or macroeconomic or structural reforms on the poor. Nonetheless, countervailing measures in PRGF-supported programs are not always accompanied by PSIA, and even where it exists, the scope and depth of PSIA varies considerably across programs. Most notably, the majority of the policies in PRGF-supported programs with important social impacts are covered neither by PSIA nor countervailing measures (see *Staff Analyses*, Section IX).

22. Data limitations, weak national capacity, and a lack of donor coordination are important obstacles to more widespread and systematic PSIA, and it has been difficult to adapt existing analytical work on poverty to provide insights into the impact of specific policy choices. While national authorities are expected to take the lead in this area, and incorporate this analysis into their PRSPs, PSIA has been largely absent in countries' PRSPs. In an effort to assist in this area, the World Bank and other development partners are helping build national capacity and deepening analytical work. Further guidance to Fund and Bank staff has also been issued and PRGF documents are expected to include a description of PSIA being carried out in each PRGF country and also discussions with the authorities on the social impact of key reforms. Staff are expected to summarize the relevant PSIA in program documentation, drawing on the work of the World Bank and other development partners, and integrate it into program design. Additional follow up efforts in research, training, and the compilation of best practices is needed.

The emphasis on growth

23. There is broad evidence that the early PRGF-supported programs are placing additional emphasis on growth as a means of poverty reduction in program design and doing so to a greater extent than under previous Fund-supported programs including on private sector development. Based on the reform agenda set out in PRGF-supported programs, macroeconomic projections and assumptions also show an increased emphasis on growth and expectations of increased external assistance; average real growth rate assumptions for PRGF-supported programs are slightly higher than under their immediate ESAF-supported

help better coordinate donor efforts. See the joint Bank-Fund Executive Board paper, *Actions to Strengthen the Tracking of Poverty-Reducing Spending in HIPC's* (SM/02/30, 1/30/2002).

predecessors (5.9 percent versus 5.5 percent) while the increase in real growth over the course of the three-year program is expected to be significantly higher under PRGF-supported programs (1.5 percent versus 0.5 percent). PRGF-supported programs are also designed to accommodate higher aid levels; projections of average levels of official grants are higher under PRGF-supported programs (4.4 percent of GDP versus 3.8 percent of GDP) and these levels are projected to decline at a somewhat slower rate than under their immediate, ESAF-supported predecessors. National authorities have expressed the view that PRGF-supported programs both place sufficient emphasis on growth as a means of poverty reduction (four fifths of the respondents agreeing or strongly agreeing) and that the emphasis on poverty reduction is higher than under previous ESAF-supported programs (four-fifths of the respondents agreeing or strongly agreeing; with nearly half agreeing strongly). Growth is critical for achieving poverty reduction and attention to the sources of growth is essential in developing appropriate policies and projections. Notwithstanding the authorities' views or staff projections above, it is necessary to remember that these are expectations at the program design stage and the outcome will depend both on the effectiveness of program implementation and the international economic environment in which countries undertake these efforts (see *Staff Analyses*, Section IV.A)

B. Has Country Ownership of PRGF-Supported Programs Increased?

24. Increased country ownership of PRGF-supported programs can be seen in several ways—a close alignment of these programs with the country's PRSP is the most obvious, though subject to some “chicken-and-egg” controversy. Another is increased flexibility in policies to accommodate country priorities in program design. Fund mission chiefs and resident representatives are increasingly engaged in supporting countries in the national dialogue associated with the PRSP process and three fifths of national authorities indicated that there are now more opportunities to influence program design than in the past (Appendix I). Nonetheless, substantial challenges remain both to foster and communicate country ownership of PRGF-supported programs. In particular, many questions were still raised by external observers as to whether there was an adequate discussion of policy options in PRGF programs, permitting authorities to choose those most appropriate to their circumstances. Finally, there is a set of suggestions surrounding Fund transparency in publishing documents related to PRGF-supported programs that would foster better country ownership (see Section III.D below).

Coherence of PRSPs and PRGF-supported programs

25. The broad macroeconomic and macro-relevant goals set out in PRGF-supported program requests and reviews are essentially identical to those underpinning the I-PRSPs and PRSPs in over three-quarters of the PRGF requests and reviews in the staff analyses sample, and largely consistent in all but two of the remaining PRGF requests and reviews.⁵ Similarly,

⁵ One request and one review (out of 59 requests and reviews considered) are supported by an I-PRSP that does not set out any macroeconomic or macro-relevant objectives. Other cases of less than complete consistency also

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staff analyses found that the specific macroeconomic assumptions and projections in PRGF-supported program requests and reviews are identical to those in the contemporaneous I-PRSPs and PRSPs in more than two-thirds of the cases with such specific projections and very similar in all but one of the remainder (*Staff Analyses*, Section IV.A).⁶

26. National authorities in countries with PRGF-supported programs generally concurred with these assessments in response to a survey; some 87 percent agreed (or agreed strongly) that their PRGF-supported program is consistent with the government's underlying poverty reduction strategy as set out in the I-PRSP or PRSP. Similarly, 82 percent agreed or strongly agreed that the goals of the PRGF-supported program are "consistent with the goals of the government and other national institutions" (Appendix I).

27. However, the consistency of PRGF-supported programs with the I-PRSP or PRSP should not be read as suggesting that the PRGF-supported programs can be fully derived from I-PRSPs and PRSPs. First, while PRGF-supported programs are consistent with their I-PRSPs and PRSPs, the latter often set out macroeconomic policies solely in broad terms and quantitative frameworks are typically skeletal, perhaps reflecting capacity constraints in some countries. This leaves a substantial amount of detail to be filled in by the PRGF-supported program. In addition, the consistency between the PRGF documents and the I-PRSPs and PRSPs does not rule out cases in which the macroeconomic goals and policies for the I-PRSP or PRSP are derived from previous PRGF-supported programs or ongoing program discussions. Such "reverse causality" has been reported on many occasions by donors and NGOs in instances where either authorities felt constrained to remain within the framework set out in earlier PRGF or ESAF requests or reviews or adopted the PRGF framework in the absence of any independent contribution on the macroeconomic framework from the PRSP process. The staff analyses shed little light on this point; it is not possible to determine the direction of influence from an examination of Executive Board documents. However, in addressing this issue, it is important to bear in mind that the scope for major changes in the macroeconomic framework while maintaining a reasonable degree of macroeconomic stability may well be quite limited in many low-income countries.

28. External views broadly support this assessment, although some queried the adequacy of consultation about the macroeconomic framework in the context of the I-PRSP or PRSP or expressed the view that greater communications, outreach, and capacity building are needed. Authorities responding to the survey agreed that the PRGF-supported programs are

relate to a wider range of objectives in the PRGF-supported program than in the I-PRSP or PRSP; there were no cases of conflicting objectives in the staff analyses sample.

⁶ Seven I-PRSPs, all from 2000, had no specific macroeconomic projections. In the case of Cambodia, severe floods intervening between the completion of the I-PRSP and the PRGF program discussions substantially altered the outlook and therefore the macroeconomic projections of the PRGF-supported program; while not reflected in the I-PRSP, the staff report notes this discrepancy and explains that the authorities view the revisions in assumptions and projections as appropriate.

consistent with the I-PRSPs (87 percent agreeing, 13 percent neutral) and agreed in most cases that the PRGF gave the authorities more opportunity to influence program design (59 percent agreeing, but 35 percent neutral, and 6 percent disagreeing). On presentation of the discussions, staff analyses found relatively few instances in which staff reports or JSAs indicated accommodations by staff to the views of authorities or how the design of the program had been modified to take account of this dialogue. These observations suggest that there is scope for more extensive and effective communications both with authorities and with civil society in PRGF countries and in staff reports for the Executive Board. A related observation from many donors, NGOs, and authorities of low-income countries is that the Fund staff need to better articulate their views and analysis as to the links between macroeconomic policies and growth and poverty outcomes (although it was often acknowledged that this is at least as much an issue of research as it is of communications).

Policy dialogue and options

29. PRGF staff reports do not typically provide much information about the policy dialogue and the options considered in program discussions. Only about one fifth of staff reports contained descriptions of flexibility in accepting country choices or indications of disagreement or compromises and tradeoffs. In spite of often-protracted discussions in many cases, no such indications of compromise or flexibility on the part of staff are described in the staff reports. As noted earlier, PRGF documents do not always report on the discussions with the authorities on fiscal policy choices and their impact on the poor. This may give the impression that fiscal frameworks are inflexible and derived in isolation from a comprehensive strategy of poverty reduction (see *Staff Analyses*, section IV.B). Many donor agencies and CSOs have emphasized the value of providing more information in staff reports on the evolution of program design. Country authorities have been more ambivalent about this because it might appear to qualify or compromise the staff's support for the program as a means of achieving the program's goals and consistent with the need to maintain frank and confidential program discussions. On balance, this appears to be an issue on which staff reports could go further, starting with cases where the authorities are themselves keen to show how elements of the program have evolved during the design stage.

30. Similarly, PRGF staff reports do not generally provide much of a sense of the role of the PRGF-supported program relative to the PRSP or other institutions in supporting the overall poverty reduction strategy. There are several aspects to this. The PRGF documents (staff papers and LOIs/MEFPs) are generally quite consistent with the underlying PRSP or I-PRSP, but that fact tends to be left to the reader to discern as specific references to I-PRSPs or PRSPs are not common even when the content is closely linked. Also, the Fund's role is limited to its areas of expertise, notably on macroeconomic and related policies; this needs to be acknowledged in PRGF documents and the role of other institutions in the poverty reduction strategy should be noted. In particular, the PRGF documents could do a better job of briefly explaining the role of the Bank (or others) in implementing those parts of the poverty reduction strategy that fall outside the scope of the PRGF-supported program. More narrowly, while most instances in which programs have had conditionality outside the Fund's core areas of expertise have explanations of the macroeconomic justification for this

conditionality, a significant minority do not. The introduction of summary boxes on the streamlining of structural conditionality has helped clarify the Bank role in overlapping (or formerly overlapping) areas of conditionality, but there is scope to improve the presentation of the broader strategy. Bank and Fund staff are currently working on operational details of measures to improve coordination and information sharing to this end, following up upon the agenda set out in the discussion of Bank-Fund coordination on conditionality. However, some additional guidance and further efforts appear to be needed to bring these elements into the drafting of PRGF LOIs/MEFPs and staff reports (see *Staff Analyses*, Sections IV.C and VII.B).⁷

31. Staff could encourage authorities in countries with PRGF-supported programs to take measures to promote greater participation and national ownership and support these measures through their own efforts. The need for additional efforts in this regard was highlighted repeatedly in external comments for this review and has also been discussed by the Board in the context of the recent paper on strengthening country ownership.⁸ Staff should encourage an active and open discussion of options by the authorities through whatever means the authorities choose (e.g., releasing summaries of options under discussion or meeting with press and civil society) and mission teams and resident representatives should assist authorities in doing so (e.g., participating in seminars or press conferences). Authorities could also be encouraged to establish or make use of websites for this purpose.

32. Existing policies already encourage Fund missions and resident representatives to be in contact with legislators, trade union representatives, and other civil society organizations.⁹ Such contacts are already quite common, as has been indicated through surveys of Fund mission teams. There is, however, a clear sense from external inputs to the Review of the PRGF and the Review of the PRSP Process that these contacts have not gone far enough. Additional efforts in this regard may be appropriate for both mission teams and resident representatives; for the latter, this issue could be revisited in the context of a review of the implementation of recent recommendations for the resident representative program. Nevertheless, care must be taken in this context to recognize that the focus of the participatory process and the main means of developing national ownership should rest with the PRSP process, not the PRGF discussions. There has also been increasing focus on

⁷ The survey of authorities suggests that the absence of references to coordination with the Bank may be more presentation than substance; 94 percent of respondents (all but one which was neutral) agreed that improved coordination between the Bank and the Fund staff has helped improve the design of poverty reduction efforts under PRGF-supported programs.

⁸ *Strengthening Country Ownership of Fund-Supported Programs* (SM/01/340, Revision 1, 12/06/2001) and the *Concluding Remarks by the Acting Chair—Strengthening Country Ownership of Fund-Supported Programs* (BUFF/01/184, 12/04/2001).

⁹ *Summing Up by the Chairman—Distilling the Lessons of the ESAF Reviews* (BUFF/98/62, 07/14/1998) *Status Report on Follow-Up to the Reviews of the Enhanced Structural Adjustment Facility* (EBS/99/173, August 30, 1999).

resident representatives' work with civil society organizations in order to promote greater understanding of the Fund, and Fund-supported programs, and the importance of efforts in this area could be reaffirmed. Finally, it is important that the staff efforts be in support of the authorities' own dissemination strategy and respect the modalities and institutions they believe most appropriate for their circumstances.

Transparency of Fund lending operations

33. Transparency in PRGF-supported programs has increased very substantially in recent years with major strides having taken place during the last two years. Virtually all PRGF-related LOIs/MEFPs (which set out authorities plans and commitments) are now made public after Board discussions. Similarly, about half of the PRGF staff reports issued in 2001 were made public (Box 3).

34. One question in this area relates to advancing the publication of the authorities' LOIs/MEFPs to the date they are issued to the Board (as is done now with I-PRSPs and PRSPs) on a voluntary basis, rather than holding the documents until after Executive Board consideration as is currently done. The current policy was criticized by some civil society organizations and other external contributors commenting in the context of the review as insufficiently timely with policy commitments released only after all aspects of the request or review have been approved. Taking this into account, the policy on presumption of publication of LOIs/MEFPs could be modified to provide that, with the agreement of the authorities, LOIs/MEFPs would be published on the Fund's website at the time they are transmitted to the Fund on a voluntary basis, consistent with the policy for I-PRSPs and PRSPs while maintaining the presumption of publication after the Executive Board discussion.¹⁰ However, these proposals raise issues of policy as well as consistency with LOIs/MEFPs for GRA resources; thus staff propose to discuss this in the context of the forthcoming review of Fund transparency policy.

35. To further enhance transparency, versions of the LOIs/MEFPs (and I-PRSPs/PRSPs) provided by the authorities in national languages could also be published on the Fund website, either directly or through links to authorities' websites.¹¹ This possibility and other translation issues are being considered by a task force on translation of Fund documents. Staff propose that publication of LOIs/MEFPs and PRSPs in original languages should begin once the needed formal decision is taken in the context of the broader task force recommendations.

¹⁰ In most cases, this would involve issuing the LOI/MEFP as a separate document in advance of the staff report. Under this proposal, staff would issue the LOI/MEFP upon receipt of the final document and publish it on the website immediately rather than delaying issuance until the LOI/MEFP could be packaged with the staff report.

¹¹ Any such publication of national-language versions of LOIs/MEFPs would have a disclaimer indicating that the English language version forms the basis for the Fund discussion and decisions. Readers noting discrepancies would be encouraged to bring these to the attention of the authorities.

Box 3. Publication of PRSP and PRGF-Related Documents

Recent changes in Fund publication policy and practice have brought about nearly universal publication of the authorities' policy commitments and substantial disclosure of staff documents assessing these programs. Both staff and authorities documents relating to the PRSP process (the PRSP/I-PRSP, and the JSA) as well as PRGF LOIs/MEFPs are presumed to be published and have been published for almost all Executive Board discussions in 2001. Staff reports for the PRGF, for which publication is purely voluntary, have been published for about half of PRGF requests or reviews in 2001.

These publication results represent a sharp shift from even the very recent past. Prior to 1998, well below half of the authorities' policy intentions documents were published for PRGF countries. With the shift to a presumption of publication in 1999, publication of these documents has become the norm with only a handful of exceptions. Staff reports could not be released at all prior to 1999 and only on a narrowly restricted basis prior to the approval of the transparency decision in early 2001. The presumption of publication also applies to JSAs starting with the approval of the transparency decision on January 4, 2001; and all JSA documents issued since the approval of that decision have been published.

PRGF and PRSP Documents Published by Year
Percentage published (absolute figures in parentheses)

| | Total | 2000 | 2001 ¹ |
|---------------------------------|----------------|----------------|-------------------|
| PRSPs ² | 100 (53 of 53) | 100 (30 of 30) | 100 (23 of 23) |
| JSAs ³ | 55 (29 of 53) | 21 (6 of 29) | 96 (23 of 24) |
| PRGF LOIs/MEFPs ⁴ | 96 (86 of 90) | 97 (37 of 38) | 94 (49 of 52) |
| PRGF Staff Reports ⁵ | 36 (32 of 90) | 13 (5 of 38) | 52 (27 of 52) |

¹For 2001, includes papers considered by the Executive Board from January through November 2001 only.

²Includes I-PRSPs, PRSPs, progress reports on PRSPs, and Status Reports on Implementation of PRSPs.

³JSAs considered by the Executive Board in 2000 could only be published after the Transparency Decision went into effect on January 4, 2001. The only unpublished JSA for 2001 Executive Board consideration was issued to the Executive Board in December 2000, but discussed only in January 2001.

⁴LOIs/MEFPs were not published for one review each for Chad, Guyana, Senegal and Yemen.

⁵Stand-alone PRGF staff reports became eligible for publication under the transparency decision (Dec/12405-(01/2) adopted January 4, 2001). Prior to that, and in the context of the pilot project for the voluntary release of Article IV staff reports, PRGF requests for staff reports could only be released for Board discussions after August 29, 2000 and published only after the January 4, 2001 transparency decision, except for earlier reports participating in the pilot project for voluntary release of Article IV staff reports (and then only combined with Article IV consultations).

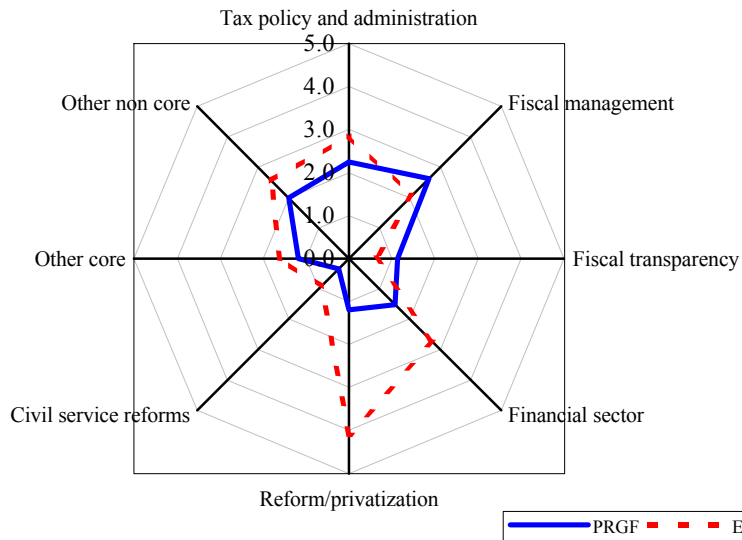
¹Figures on publication cited in this section refer to documents discussed by the Executive Board between January 1, 2000 and November 30, 2001 and therefore covers more documents than the *Staff Analyses* paper.

C. Has the Fund's Role Become More Focused?

Streamlining structural conditionality

36. A first dimension of this issue relates to the coverage of structural areas in Fund-supported programs. The intention has been to focus and streamline better the coverage of those elements that are critical to the achievement of the program's objectives. There has been progress in line with the intentions set out for the PRGF. Conditions in non-core areas have fallen significantly and are generally limited to measures critical for achieving the macroeconomic targets, again, consistent with the intentions of the PRGF. While the extent of conditionality and its streamlining is difficult to observe directly, the number of conditions is the best (but imperfect) available proxy. The overall number of prior actions, performance criteria, and structural benchmarks has fallen by roughly one third (from 17 to 12) between the last ESAF-supported programs (typically in 1998 or 1999) and the PRGF requests and reviews for the same countries (Figure 1).

Figure 1. Composition of Structural Conditionality
(In averages per request or review)



Source: Fund Board documents.

37. External views generally agree that the streamlining and focusing of structural conditionality is taking place consistent with the expectations set out for the PRGF, but differ as to its advisability. National authorities in countries with PRGF-supported programs broadly agree on both the increased focus and streamlining; 87 percent agree that PRGF structural conditionality is more focused in the Fund's core areas of expertise and 73 percent agree that streamlining of PRGF structural conditionality has improved prospects for the

implementation of conditionality. However, some donors and NGOs have raised concerns that streamlining may go too far, leaving important policy areas neglected. Conversely, others donors and NGOs have questioned whether there has been any net change in conditionality if the World Bank has expanded conditionality as the Fund has streamlined and one donor has called for further work to review the extent of Bank and Fund conditionality as a whole.

Collaboration with the World Bank

38. A second dimension of this work relates to changing the roles and modalities of collaboration in the PRSP framework between the Fund and the World Bank. In July, 2001 the Fund and World Bank Executive Boards endorsed a strategy to strengthen collaboration between the two institutions on conditionality. Based on principles agreed in 1998, the key features in the strengthened framework are: clarity about responsibility, early and effective consultation, and separate accountability. They also agreed that, to further clarify the delineation of responsibilities, it would be useful to adopt the practice of identifying one institution as the “lead agency” responsible for designing and monitoring conditionality in each policy area. In the future, Board documents should transparently and systematically set out the staff views of the lead agency on various issues and conditionality as an input to Board discussions, including more effective use of Bank inputs to Article IV consultations and Fund inputs in the context of the Bank’s Country Assistance Strategies, economic and sector work, and programmatic lending.¹²

39. The benefits of this agreed strategy are beginning to be seen on a country-by-country basis, while Fund and Bank staff work on specific procedures and modalities to implement these decisions routinely in joint country work. The framework builds on existing procedures, seeking to clarify and generalize the application of “best practices” while taking into account the different cultures and structures of the two institutions. Collaboration has already proved fruitful in specific PRGF cases with more focused programs, but benefits should become more evident in the future with the routine implementation of the strengthened collaboration framework.

A medium-term perspective

40. An additional area of concern particular to the mission of the Fund is the need to maintain and update regularly a medium-term outlook on the financial needs of the country and the goals of ongoing Fund support without imposing this as a requirement on each staff report for a PRGF review. This has come up in the context of the PRSP in discussions of the frequency with which PRSPs or progress reports on PRSPs are to be revised and the role of

¹² *Summing Up by the Chairman: Streamlining Conditionality—Review of Initial Experience; IMF-World Bank Collaboration on Program Conditionality; and Conditionality in Fund-Supported Programs—External Consultations* (BUFF/01/122, 8/03/01).

progress reports. For the PRGF, it is also important to do a periodic reassessment of the role of the Fund and the country's medium-term prospects without necessarily having a full reworking of the medium-term scenario in the staff report for each review of the PRGF-supported program. This could be done by providing such a medium-term assessment at the start of each three-year PRGF arrangement or in annual Article IV reports for PRGF countries. Staff reports outside the Article IV cycle would still be expected to update projections and place policies in a medium-term context, but without a full reworking of the medium-term policy and financing framework; staff would also explore whether other aspects of these PRGF staff reports could be streamlined while still ensuring that key issues are reviewed systematically.

D. Promoting Capacity-Building

41. The need for further capacity-building to develop and assess macroeconomic frameworks, analyze the dimensions and profile of poverty, and conduct poverty and social impact analysis, has been noted by a wide array of internal and external commentators. This capacity building is required for governments, academics, and CSOs in PRGF countries and is seen as a key element in building greater ownership for program design and policy choices. Consistent with this perception, many from these groups called for greater assistance by donors, the World Bank, and the Fund in helping to develop this capacity. Among the options for the Fund are continuing and strengthening macroeconomic training for civil society officials and expanding that training to CSOs in countries with PRGF-supported programs. Finally, there is scope for additional internal training of Fund staff to assist them in broadening their own capacity to incorporate poverty and social impact analysis into PRGF-supported programs.

Technical assistance

42. The Fund's contribution to capacity building in HIPC countries and countries participating in the PRSP process is being addressed in a multilateral context. To maximize the impact of technical assistance (TA), the Fund is focusing and prioritizing its TA on the institution's core macroeconomic and financial areas of responsibility, including public finance and administration, financial sector development, and developments of sound statistical systems so as to support the member countries reform efforts and development goals.¹³ In particular, the Fund has supported regional, country-based approach to TA for capacity building including in the efforts to establish two new regional technical assistance centers (AFRITAC) that will be opened in Africa in the summer of 2002. These centers have similar objectives: to focus TA squarely on capacity building; to increase the volume of TA to these countries; raise the effectiveness of IMF TA projects through faster response, strong ownership of the recipient governments; increase positive externalities through sharing regionally-based experiences; and enhance accountability.

¹³ In this regard, the recent efforts of Bank and Fund staff in collaboration with country authorities to design action plans to strengthen PEM capacity in 24 HIPC countries is an important step.

43. Although the Fund's TA policy has undergone a major reorientation in the past couple of years, there are additional gains that can be made by focusing even more closely on prioritizing the Fund's scarce TA resources to support both the goals of the Fund and those of the international community. Any additional resources for increased training of either government officials or CSO staff would need to be considered in the context of future budget discussions.¹⁴

Analytical support

44. In parallel with supporting capacity building, the Fund's research agenda is conducting additional work on the formulation of macroeconomic policies that explicitly take into account some of the distinguishing characteristics of low-income countries. In particular, attention is being devoted to identifying the determinants of successful macroeconomic policies at different levels of economic development. Special emphasis is also being given to understanding the nature of shocks that low income countries are subjected to and what the appropriate macroeconomic policy response should be. Such studies might provide important information to the staff on how to tailor monetary, fiscal, and exchange rate policies to the needs of the countries that are most likely to access the PRGF. Another relevant research project relates to the question of optimal conditionality design in poverty reduction programs. One area being explored is how to formulate "incentive compatible" aid and debt relief programs when the preferences of the donor community and those of recipient country governments are not perfectly aligned.

IV. ARCHITECTURE OF THE PRGF

45. Among the issues that have been raised in the context of the PRGF review is the adequacy of the current structure of the PRGF to meet the varied needs of low-income countries. Circumstances raised in this regard by some donors, PRGF country representatives, and CSOs include the appropriate form of Fund cooperation for PRGF countries with little or no immediate need for Fund resources, the approach to providing assistance to low-income countries emerging from conflict, and the need for greater flexibility to assist low-income members affected by commodity shocks. These are valid questions, but they are complex and go beyond the scope of this review. In order to provide an informed assessment and explicit options for Board decisions, it is proposed that staff return to the Board before the end of 2002 with a broader review of concessional assistance to low income countries in a paper setting out the medium-term issues related to concessional assistance by the Fund. Similarly, as considerations relating to post-program monitoring might be influenced by that discussion, it also proposed that a decision on applying post-program monitoring to the use of PRGF resources be deferred (Box 4).

¹⁴ EXR has provided training for CSOs in the past and INS envisages some increase in training for government officials at the Joint Africa Institute.

Box 4: Post-Program Monitoring

The summing up from the *Review of Fund Facilities* discussion indicated that staff would come back to the Board with a proposal on the extension of post-program monitoring to use of PRGF resources in the context of the Review of the PRGF. Staff have considered the implications of this in light of current patterns of PRGF use. Because of the comparatively low levels of access under the PRGF, few countries have PRGF obligations outstanding in excess of 100 percent of quota. Also, with the high probability of successor arrangements following closely on their predecessors, few PRGF borrowers would be regularly moving to a true “post-program” state. For these reasons, extension of post-program monitoring to include use of PRGF resources would cover only a handful of additional countries.

Current PRGF usage patterns illustrate this point. As of November 30, 2001, a total of 20 countries had outstanding PRGF loans or PRGF loans combined with GRA credit in excess of 100 percent of their quotas and would therefore be potentially subject to post-program monitoring after their Fund arrangements had expired. However, fifteen of these countries had PRGF arrangements in force on November 30, 2001 and the remaining five (Albania, Cote d’Ivoire, Kyrgyz Republic, Uganda, and Yemen) were discussing successor arrangements with Fund staff. As this is likely to be a prevalent pattern, application of post-program monitoring PRGF access is unlikely to add materially to the Fund’s monitoring of users of the facility.

V. ISSUES FOR DISCUSSION

46. Do Directors agree on these assessments of progress thus far and on areas in which there is a need for further efforts to align PRGF-supported programs with the goals set out for the facility, including on the need for more systematic discussion of options and the policy dialogue in staff documents, greater integration of poverty and social impact assessment in program design and staff documents, more specific measures to improve the efficiency and targeting of public expenditure, and more systematic reporting on public expenditure management? Do Directors agree that it would be useful to revise and re-issue the *Key Features of Poverty Reduction and Growth Facility (PRGF) Supported Programs* to aid in the implementation of these recommendations?

47. Do Directors agree that the additional efforts to increase the transparency of PRGF-supported programs and improve communications in the process of PRGF discussions should be reviewed? Specifically, do Directors agree that accelerating the timing of LOI/MEFP publication to allow publication immediately after the final documents are sent to the Fund should be considered in the context of the forthcoming review of Fund transparency? On a related issue, do Directors agree that publishing PRGF documents in original languages when original language versions of LOIs/MEFPs or PRSPs can be provided by the authorities should begin once the needed formal decision was taken in the context of the broader task force recommendations?

48. On issues related to the architecture of the PRGF as a facility:
- Do Directors agree that staff should examine the appropriateness of the current structure of Fund concessional assistance and return to the Board with an assessment of the need for changes, including on changes to tailor concessional assistance better in cases of low-income countries with a need for a Fund arrangement but little or no balance of payments need for Fund resources, low-income countries affected by commodity price or other shocks, or low-income countries emerging from conflict?
 - Do Directors agree that extension of post-program monitoring to apply to PRGF resources is not necessary at this time and should be taken up in the context of the broader review of concessional Fund assistance to low-income countries?
49. Do Directors agree that the experience with the PRGF and PRGF-supported programs should be reviewed again before the Spring Meetings in 2005?

Views from the Other Side of the Table—Assessment of Key Features by Authorities in Countries with PRGF Arrangements

A survey of key counterparts among national authorities in the countries included in the sample for the review of the key features of the PRGF reveals a high degree of consensus that the key features are being implemented in PRGF-supported programs, but also suggests some room for further progress (Appendix Box 5). Officials from about half of the PRGF countries included in the Staff Analyses sample (17 of 35) responded to the survey, with most responding to all questions. Overall, the assessment of PRGF country authorities on progress towards the goal of the PRGF is positive, with a majority agreeing that there has been progress on all aspects of the key features of the PRGF included among the survey questions. Agreement is strongest on progress in consistency of the PRGF-supported programs with the PRSP, more poverty-oriented budgets, more focused conditionality, greater emphasis improved public expenditure management, and improved coordination with the World Bank. Agreement is less strong (but still accounting for a majority of all responses) for fiscal flexibility and greater opportunity for authorities to affect program design. Disagreement (as opposed to a neutral response) is limited to only five of the twelve aspects, with multiple responses disagreeing only on the two fiscal flexibility questions (accounting for less than one fourth of responses in each case).

**Appendix Box 5. Authorities' Responses to Questionnaire on Key Aspects of
PRGF-Supported Programs**
(Responses are shown in percent of total responses received)

| | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--|-------------------|-------|---------|----------|----------------------|
| 1. PRGF-supported program is consistent with the government's underlying poverty reduction strategy [as embodied in the I-PRSP/PRSP]. | 12.5 | 75.0 | 12.5 | - | - |
| 2. PRGF-supported program allowed increased opportunity to affect the design of the program relative to past programs. | 5.9 | 52.9 | 35.3 | 5.9 | - |
| 3. PRGF-supported program is consistent with the economic goals of the government and other national institutions. | 11.8 | 70.6 | 11.8 | 5.9 | - |
| 4. PRGF-supported program places sufficient emphasis on growth as a means to alleviate poverty. | 17.6 | 64.7 | 17.6 | - | - |
| 5. PRGF-supported program places more emphasis on growth as a means to alleviate poverty compared to Fund programs in the past. | 47.1 | 35.3 | 11.8 | 5.9 | - |
| 6. Under PRGF-supported program budgets have become more poverty-oriented. | 11.8 | 82.4 | 5.9 | - | - |
| 7. PRGF-supported program has shown more flexibility in accommodating social spending. | 29.4 | 35.3 | 17.6 | 11.8 | 5.9 |
| 8. PRGF-supported program has shown more flexibility in accommodating availability of increased external financing. | 11.8 | 52.9 | 11.8 | 17.6 | 5.9 |
| 9. Structural conditionality included in PRGF-supported program is more focused Fund's core areas of expertise. | 18.8 | 68.8 | 12.5 | - | - |
| 10. Streamlining of conditionality under PRGF-supported program has resulted in improved prospects of implementation. | 6.3 | 68.8 | 31.3 | - | - |
| 11. PRGF-supported program incorporates greater emphasis on improved management and accountability of public resources. | 35.3 | 58.8 | 5.9 | - | - |
| 12. Improved coordination between Fund and WB staff has helped improve the design of poverty reduction efforts under the PRGF-supported program. | 35.3 | 58.8 | 5.9 | - | - |